

SENATE BILL NO. 470

INTRODUCED BY J. ELLIOTT

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4 A BILL FOR AN ACT ENTITLED: "AN ACT INCLUDING A GRANTOR TRUST AS A DISREGARDED ENTITY;
5 TREATING GRANTOR TRUSTS AS PASS-THROUGH ENTITIES FOR WITHHOLDING AND REPORTING
6 PURPOSES; DEFINING "GRANTOR TRUST"; DIRECTING THE DEPARTMENT OF REVENUE TO WAIVE
7 REPORTING REQUIREMENTS FOR GRANTOR TRUSTS THAT ESTABLISH THAT THEIR MONTANA
8 SOURCE INCOME WILL BE FULLY ACCOUNTED FOR IN INDIVIDUAL INCOME TAX RETURNS,
9 CORPORATION LICENSE TAX RETURNS, OR CORPORATION INCOME TAX RETURNS FILED WITH THE
10 STATE; AMENDING SECTION 15-30-101, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE AND
11 A RETROACTIVE APPLICABILITY DATE."

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13 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

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15 NEW SECTION. **Section 1. Waiver of grantor trust reporting requirements.** The department shall
16 waive the reporting requirements provided in 15-30-1102 for a grantor trust that establishes that the trust's
17 Montana source income will be fully accounted for in individual income tax returns, corporation license tax returns,
18 or corporation income tax returns filed with the state.

19
20 **Section 2.** Section 15-30-101, MCA, is amended to read:

21 **"15-30-101. Definitions.** For the purpose of this chapter, unless otherwise required by the context, the
22 following definitions apply:

- 23 (1) "Base year structure" means the following elements of the income tax structure:
24 (a) the tax brackets established in 15-30-103, but unadjusted by 15-30-103(2), in effect on June 30 of
25 the ~~taxable~~ tax year;
26 (b) the exemptions contained in 15-30-112, but unadjusted by 15-30-112(6), in effect on June 30 of the
27 ~~taxable~~ tax year;
28 (c) the maximum standard deduction provided in 15-30-122, but unadjusted by 15-30-122(2), in effect
29 on June 30 of the ~~taxable~~ tax year.

30 (2) "Consumer price index" means the consumer price index, United States city average, for all items,



1 for all urban consumers (CPI-U), using the 1982-84 base of 100, as published by the bureau of labor statistics
2 of the U.S. department of labor.

3 (3) "Corporation" or "C. corporation" means a corporation, limited liability company, or other entity:

4 (a) that is treated as an association for federal income tax purposes;

5 (b) for which a valid election under section 1362 of the Internal Revenue Code, {26 U.S.C. 1362}, is not
6 in effect; and

7 (c) that is not a disregarded entity.

8 (4) "Department" means the department of revenue.

9 (5) "Disregarded entity" means ~~a business entity~~:

10 (a) a business entity that is disregarded as an entity separate from its owner for federal tax purposes,
11 as provided in United States treasury regulations 301.7701-2 or 301.7701-3, 26 CFR 301.7701-2 or 26 CFR
12 301.7701-3, or as those regulations may be labeled or amended; ~~or~~

13 (b) ~~that is~~ a qualified subchapter S. subsidiary that is not treated as a separate corporation, as provided
14 in section 1361(b)(3) of the Internal Revenue Code, {26 U.S.C. 1361(b)(3)}; or

15 (c) a grantor trust.

16 (6) "Dividend" means:

17 (a) any distribution made by a C. corporation out of its earnings and profits to its shareholders or
18 members, whether in cash or in other property or in stock of the corporation, other than stock dividends; and

19 (b) any distribution made by an S. corporation treated as a dividend for federal income tax purposes.

20 (7) "Fiduciary" means a guardian, trustee, executor, administrator, receiver, conservator, or any person,
21 whether individual or corporate, acting in any fiduciary capacity for any person, trust, or estate.

22 (8) "Foreign C. corporation" means a corporation that is not engaged in or doing business in Montana,
23 as provided in 15-31-101.

24 (9) "Foreign government" means any jurisdiction other than the one embraced within the United States,
25 its territories, and its possessions.

26 (10) "Grantor trust" means a trust any portion for which the grantor or another person is treated as owner
27 as provided in Chapter 1, Subchapter J, Part I, Subpart E, of the Internal Revenue Code, 26 U.S.C. 671, et seq.

28 ~~(10)(11)~~ "Gross income" means the taxpayer's gross income for federal income tax purposes as defined
29 in section 61 of the Internal Revenue Code, {26 U.S.C. 61}, or as that section may be labeled or amended,
30 excluding unemployment compensation included in federal gross income under the provisions of section 85 of

1 the Internal Revenue Code, {26 U.S.C. 85}, as amended.

2 ~~(11)~~(12) "Inflation factor" means a number determined for each tax year by dividing the consumer price
3 index for June of the tax year by the consumer price index for June 2005.

4 ~~(12)~~(13) "Information agents" includes all individuals and entities acting in whatever capacity, including
5 lessees or mortgagors of real or personal property, fiduciaries, brokers, real estate brokers, employers, and all
6 officers and employees of the state or of any municipal corporation or political subdivision of the state, having the
7 control, receipt, custody, disposal, or payment of interest, rent, salaries, wages, premiums, annuities,
8 compensations, remunerations, emoluments, or other fixed or determinable annual or periodical gains, profits,
9 and income with respect to which any person or fiduciary is taxable under this chapter.

10 ~~(13)~~(14) "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended, or as it may
11 be labeled or further amended. References to specific provisions of the Internal Revenue Code mean those
12 provisions as they may be otherwise labeled or further amended.

13 ~~(14)~~(15) "Knowingly" is as defined in 45-2-101.

14 ~~(15)~~(16) "Limited liability company" means a limited liability company, a domestic limited liability company,
15 or a foreign limited liability company as defined in 35-8-102.

16 ~~(16)~~(17) "Limited liability partnership" means a limited liability partnership as defined in 35-10-102.

17 ~~(17)~~(18) "Lottery winnings" means income paid either in lump sum or in periodic payments to:

- 18 (a) a resident taxpayer on a lottery ticket; or
19 (b) a nonresident taxpayer on a lottery ticket purchased in Montana.

20 ~~(18)~~(19) (a) "Montana source income" means:

21 (i) wages, salary, tips, and other compensation for services performed in the state or while a resident
22 of the state;

23 (ii) gain attributable to the sale or other transfer of tangible property located in the state, sold or otherwise
24 transferred while a resident of the state, or used or held in connection with a trade, business, or occupation
25 carried on in the state;

26 (iii) gain attributable to the sale or other transfer of intangible property received or accrued while a
27 resident of the state;

28 (iv) interest received or accrued while a resident of the state or from an installment sale of real property
29 or tangible commercial or business personal property located in the state;

30 (v) dividends received or accrued while a resident of the state;

1 (vi) net income or loss derived from a trade, business, profession, or occupation carried on in the state
2 or while a resident of the state;

3 (vii) net income or loss derived from farming activities carried on in the state or while a resident of the
4 state;

5 (viii) net rents from real property and tangible personal property located in the state or received or
6 accrued while a resident of the state;

7 (ix) net royalties from real property and from tangible real property to the extent the property is used in
8 the state or the net royalties are received or accrued while a resident of the state. The extent of use in the state
9 is determined by multiplying the royalties by a fraction, the numerator of which is the number of days of physical
10 location of the property in the state during the royalty period in the tax year and the denominator of which is the
11 number of days of physical location of the property everywhere during all royalty periods in the tax year. If the
12 physical location is unknown or unascertainable by the taxpayer, the property is considered used in the state in
13 which it was located at the time the person paying the royalty obtained possession.

14 (x) patent royalties to the extent the person paying them employs the patent in production, fabrication,
15 manufacturing, or other processing in the state, a patented product is produced in the state, or the royalties are
16 received or accrued while a resident of the state;

17 (xi) net copyright royalties to the extent printing or other publication originates in the state or the royalties
18 are received or accrued while a resident of the state;

19 (xii) partnership income, gain, loss, deduction, or credit or item of income, gain, loss, deduction, or credit:

20 (A) derived from a trade, business, occupation, or profession carried on in the state;

21 (B) derived from the sale or other transfer or the rental, lease, or other commercial exploitation of
22 property located in the state; or

23 (C) taken into account while a resident of the state;

24 (xiii) an S. corporation's separately and nonseparately stated income, gain, loss, deduction, or credit or
25 item of income, gain, loss, deduction, or credit:

26 (A) derived from a trade, business, occupation, or profession carried on in the state;

27 (B) derived from the sale or other transfer or the rental, lease, or other commercial exploitation of
28 property located in the state; or

29 (C) taken into account while a resident of the state;

30 (xiv) social security benefits received or accrued while a resident of the state;

1 (xv) taxable individual retirement account distributions, annuities, pensions, and other retirement benefits
2 received while a resident of the state; and

3 (xvi) any other income attributable to the state, including but not limited to lottery winnings, state and
4 federal tax refunds, nonemployee compensation, recapture of tax benefits, and capital loss addbacks.

5 (b) The term does not include:

6 (i) compensation for military service of members of the armed services of the United States who are not
7 Montana residents and who are residing in Montana solely by reason of compliance with military orders and does
8 not include income derived from their personal property located in the state except with respect to personal
9 property used in or arising from a trade or business carried on in Montana; or

10 (ii) interest paid on loans held by out-of-state financial institutions recognized as such in the state of their
11 domicile, secured by mortgages, trust indentures, or other security interests on real or personal property located
12 in the state, if the loan is originated by a lender doing business in Montana and assigned out-of-state and there
13 is no activity conducted by the out-of-state lender in Montana except periodic inspection of the security.

14 ~~(19)~~(20) "Net income" means the adjusted gross income of a taxpayer less the deductions allowed by
15 this chapter.

16 ~~(20)~~(21) "Nonresident" means a natural person who is not a resident.

17 ~~(21)~~(22) "Paid", for the purposes of the deductions and credits under this chapter, means paid or accrued
18 or paid or incurred, and the terms "paid or accrued" and "paid or incurred" must be construed according to the
19 method of accounting upon the basis of which the taxable income is computed under this chapter.

20 ~~(22)~~(23) "Partner" means a member of a partnership or a manager or member of any other entity, if
21 treated as a partner for federal income tax purposes.

22 ~~(23)~~(24) "Partnership" means a general or limited partnership, limited liability partnership, limited liability
23 company, or other entity, if treated as a partnership for federal income tax purposes.

24 ~~(24)~~(25) "Pass-through entity" means a partnership, an S. corporation, or a disregarded entity.

25 ~~(25)~~(26) "Pension and annuity income" means:

26 (a) systematic payments of a definitely determinable amount from a qualified pension plan, as that term
27 is used in section 401 of the Internal Revenue Code, ~~{26 U.S.C. 401}~~, or systematic payments received as the
28 result of contributions made to a qualified pension plan that are paid to the recipient or recipient's beneficiary upon
29 the cessation of employment;

30 (b) payments received as the result of past service and cessation of employment in the uniformed

1 services of the United States;

2 (c) lump-sum distributions from pension or profit-sharing plans to the extent that the distributions are
3 included in federal adjusted gross income;

4 (d) distributions from individual retirement, deferred compensation, and self-employed retirement plans
5 recognized under sections 401 through 408 of the Internal Revenue Code, ~~{26 U.S.C. 401 through 408}~~, to the
6 extent that the distributions are not considered to be premature distributions for federal income tax purposes; or

7 (e) amounts received from fully matured, privately purchased annuity contracts after cessation of regular
8 employment.

9 ~~(26)~~(27) "Purposely" is as defined in 45-2-101.

10 ~~(27)~~(28) "Received", for the purpose of computation of taxable income under this chapter, means
11 received or accrued, and the term "received or accrued" must be construed according to the method of
12 accounting upon the basis of which the taxable income is computed under this chapter.

13 ~~(28)~~(29) "Resident" applies only to natural persons and includes, for the purpose of determining liability
14 to the tax imposed by this chapter with reference to the income of any ~~taxable~~ tax year, any person domiciled in
15 the state of Montana and any other person who maintains a permanent place of abode within the state even
16 though temporarily absent from the state and who has not established a residence elsewhere.

17 ~~(29)~~(30) "S. corporation" means an incorporated entity for which a valid election under section 1362 of
18 the Internal Revenue Code, ~~{26 U.S.C. 1362}~~, is in effect.

19 ~~(30)~~(31) "Stock dividends" means new stock issued, for surplus or profits capitalized, to shareholders in
20 proportion to their previous holdings.

21 ~~(31)~~(32) "Tax year" means the taxpayer's taxable year for federal income tax purposes.

22 ~~(32)~~(33) "Taxable income" means the adjusted gross income of a taxpayer less the deductions and
23 exemptions provided for in this chapter.

24 ~~(33)~~(34) "Taxpayer" includes any person, entity, or fiduciary, resident or nonresident, subject to a tax or
25 other obligation imposed by this chapter and unless otherwise specifically provided does not include a C.
26 corporation."

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28 **NEW SECTION. Section 3. Codification instruction.** [Section 1] is intended to be codified as an
29 integral part of Title 15, chapter 30, and the provisions of Title 15, chapter 30, apply to [section 1].

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1 NEW SECTION. **Section 4. Effective date.** [This act] is effective on passage and approval.

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3 NEW SECTION. **Section 5. Retroactive applicability.** [This act] applies retroactively, within the
4 meaning of 1-2-109, to tax years beginning after December 31, 2006.

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